

Chapter I: Overview

Goods and Services Tax (GST) was rolled out from July 1, 2017 through the implementation of the 101st Amendment of the Constitution of India. GST was not merely a simplification of the tax structure, but also a systemic reform with a focus on transparency, efficiency and speed in implementation and administration of taxes. Technology was a major component of the solution devised to fulfil these objectives. This could have been possible only when there was a strong IT Infrastructure and Service backbone which enabled capture, processing and exchange of information amongst the stakeholders. For this, Goods and Services Tax Network (GSTN), a Special Purpose Vehicle, was created. The GST portal developed by the GSTN is the front-end portal for the taxpayers for Registration, Returns, Payment and Refund modules.

Central Board of Indirect Taxes and Customs (CBIC) and the State GST authorities were given the option either to develop their own IT systems and applications to process the registration, returns and payment data as a back-end process and provide facilities to the taxpayers for other business related activities namely Refund, Investigation, Audit, Exports, Adjudication/Appeal etc. or to avail of the services to be provided by the GSTN.

A total of 27 States/Union Territories (UTs) had so far opted for the option of using GSTN system both for the front-end and back-end activities of their taxpayers and their tax officials (also known as Model - II states¹). On the other hand, CBIC and nine States/UTs opted for developing their own systems and applications (known as Model - I states²) for their departmental tax officials for tax administration for processing the registration, returns and payment data as a back-end process and also to provide facilities to the taxpayers and its departmental officials for other business-related activities namely Refund, Investigation, Audit, Exports, Adjudication/Appeal etc.

Thus, as far as CBIC is concerned, GSTN is a pass-through portal, which provides front-end facility for registration, returns and payment and after performing certain validations, GSTN shares the information and scanned images of documents uploaded on their system by the taxpayers or

¹ Andaman and Nicobar Islands, Arunachal Pradesh, Assam, Bihar, Chandigarh, Chhattisgarh, Dadra and Nagar Haveli, Daman and Diu, Delhi, Gujarat, Himachal Pradesh, Jammu & Kashmir, Jharkhand, Lakshadweep, Madhya Pradesh, Manipur, Mizoram, Nagaland, Odisha, Puducherry, Punjab, Rajasthan, Telangana, Tripura, Uttar Pradesh, Uttarakhand and West Bengal

² Andhra Pradesh, Goa, Haryana, Karnataka, Kerala, Maharashtra, Meghalaya, Sikkim and Tamil Nadu

received from other State tax administrations and stakeholders to the CBIC ACES-GST Application for further action.

The Directorate General of Systems and Data Management (DG (Systems)), an attached office of the CBIC, is entrusted with the implementation of this back-end IT project. Overall, DG (Systems) is responsible for the design, development, programming, testing, implementation and maintenance of automated systems under CBIC, and for overseeing and managing the projects sanctioned by CBIC relating to information technology.

1.1 About CBIC ACES-GST Application

CBIC ACES-GST application is primarily meant for back-end processing of various GST functionalities like Refund, Investigation, Adjudication, etc., by the CBIC tax officers. Relevant modules of Automation of Central Excise and Service Tax (ACES³) Application (the erstwhile IT system for Central Excise/Service Tax) were incorporated into the application. The final scope for this development was subject to the state of business processes applicable for Central Excise and Service Tax in the GST regime.

The CBIC ACES-GST Application contains 11 modules viz. Access Control, Registration, Returns, Payment, Refund/Rebate, Exports, Audit, Dispute Settlement (Investigation, Adjudication and Appeal), Taxpayer at glance (TAG), ACES Migration, Mobile App. The CBIC ACES-GST Application intends to provide interface with other systems/applications both internally and externally. External interfaces are to be with GSTN, State Backend Systems, RBI, Banks, DGFT, MCA 21, CBDT, UIDAI, ICEGATE, ICES, RMS, ACES, EDW of CBIC etc. Internally, the interface is to be within different modules of the application.

Thus, the CBIC ACES-GST IT System is a new system implemented by CBIC for tax administration in GST regime. Though primarily meant for back-office processing by departmental officers in GST regime, it has some taxpayer interfaces primarily related to Central Excise taxpayers.

³ACES was rolled out in 2009 as a mission mode project of the Government of India under the National e-governance plan. It is a centralized web based and work-flow based system. It automates all the major business processes for administration of Central Excise and Service Tax. ACES has nine Modules of Central Excise and six modules of Service Tax for processing the day-to-day activities of the Department and the taxpayers. ACES interfaces with the following systems: i) Income Tax for Online Verification of PAN; ii) EASIEST for verification of Payment (Challans) from Banks; and iii) ICES for verification of IEC and Export Related processes. The functional modules of ACES were integrated with CBIC ACES-GST Application. Under GST regime, the existing ACES system is to be continued for some years as there would be a requirement of the ACES system for certain commodities that remained outside the scope of the GST. Also, it is required by existing taxpayers for completing activities relating to the past periods/obligations viz. filing of past returns, payment of arrears, claiming refund, etc., Additionally, the system may be required for dispute settlements (past periods), etc.

1.2 Audit Objectives

The main objectives of this IT Audit of CBIC ACES-GST Application were to seek assurance whether:

- (i) IT governance and IT security is adequate and effective;
- (ii) The functionalities of CBIC ACES-GST Application have been developed as envisaged and the intended benefits have been achieved including ease of tax administration; and
- (iii) The application has effective interfaces with other IT Applications.

1.3 Audit Criteria

The following are the sources of audit criteria for this audit:

- (i) Central GST Act, 2017
- (ii) Central GST Rules, 2017
- (iii) Integrated GST Act, 2017
- (iv) Integrated GST Rules, 2017
- (v) Notification and circulars issued by CBIC
- (vi) Systems Requirement Specification (SRS)
- (vii) General Financial Rules, 2005 and 2017
- (viii) Request for Proposal (RFP)
- (ix) Master Service Agreement

1.4 Audit Scope

IT Audit of CBIC ACES-GST Application was conducted during December 2020-April 2022. The audit covered the period from August 2015 to March 2021. The scope of Audit covered:

- (i) Development of Modules and their functionalities
- (ii) GSTN Interface and other Interfaces
- (iii) Acquisition and Procurement of the CBIC ACES-GST Application
- (iv) IT Governance
- (v) Change Management

- (vi) Compliance with SLA Parameters

1.5 Audit Methodology

The audit methodology to achieve the audit objectives was, in brief, as under:

- (i) Audit conducted an Entry Conference in November 2020.
- (ii) Walkthrough/presentations were shared by the Department.
- (iii) Review and analysis of SRS and other documents related to various Modules, Change Management was done by Audit.
- (iv) Testing was done in User Acceptance Testing (UAT) environment to check the validations/audit checks relating to functionalities of various Modules of the CBIC ACES-GST system.
- (v) Extraction of data by running queries through CBIC on the CBIC database and further analysis of such data.
- (vi) Review and analysis of SLA monitoring reports and consequential action thereon.
- (vii) Examining the CBIC ACES-GST application through the SSO IDs provided to the Audit Personnel.
- (viii) For the purpose of this audit, three field offices of the Comptroller and Auditor General of India (C&AG) i.e., Delhi, Chennai and Bengaluru had participated in conduct of audit at the respective branches of Directorate General of Systems (DG (Systems)).
- (ix) The draft Audit report containing Audit findings and recommendations was issued to the Ministry for comments on 13 July 2022.
- (x) The Ministry's replies on draft Audit report were received on 30 August 2022.
- (xi) The Audit findings and recommendations of the draft Audit report was discussed with the Ministry during Exit Conference held on 2 September 2022.
- (xii) The Ministry's replies and submissions made during Exit Conference have been suitably incorporated in the report.

1.6 Audit Constraints

Access to testing environment and records production to audit was not up to the desired level. The audit opinion expressed in this report is limited to the extent of information provided, which was fragmented across the areas of audit undertaken.

With respect to requisition of record for audit of areas like setting up and functioning of Project Management Office (PMO) and Steering Committee,

Project timelines and milestones and its implementation, Change Management, the record production was partial. Also, due to non-providing of testing environment for almost half of the audit test check areas, Audit could not verify the development of functionalities across modules. Thus, Audit could not provide complete assurance regarding the development of the Application as envisaged.

Topic-wise constraints are as mentioned below:

1.6.1 IT Governance and Management

Documents related to setting up of Project Management office and Steering Committee and their functioning and details of meetings were not produced to Audit. Hence, Audit could not give assurance on whether the IT Governance structure and the role/working of Boards/Committees to oversee the management of project were adequate and effective.

As per RFP, an Incident Management Team was to be set up by the Vendor for monitoring the incidents, identification of vulnerable areas, performance testing and their timely resolution. However, due to non-production of relevant documents, Audit could not ascertain whether such a team was set up and if not, how and by whom these responsibilities were performed. Further, there was a requirement of the risk management plan in RFP which was also not produced to audit and therefore, audit could not check whether risk management responsibilities were clearly defined, to whom the same were assigned and whether the Root Cause Analysis (RCA) reports were prepared and submitted by the Vendor and monitored and reviewed by the CBIC.

1.6.2 Service Level Agreements

Out of 32 parameters pertaining to 5 SLAs, Audit was provided documents pertaining to 14 SLA parameters only. No documents were provided for any SLA parameter pertaining to Help Desk and Technical Support Incident/Ticket Resolution (L2 & L3) and Security (Vulnerability assessment & Penetration Testing). Audit could not derive any understanding to form an opinion on the functioning and service with regard to these parameters.

1.6.3 Change Requests

Apart from individual documents on a few change requests, Department did not provide records relating to establishment of Change Control Board (CAB), change control logs, development of backout process before any change request is implemented, Change Management procedures to

control emergency changes to the system, change order documentation etc.

1.6.4 Registration Module

Due to non-provision of a testing environment, Audit could not check processes of advance tax paid by the Casual Taxable Person or NRTP and whether the same is equal to the estimated tax liability, functionality of change in Principal Place of business and erroneous cancellation of registration.

1.6.5 Returns Module

Audit could not verify the reasons for non-deployment of certain critical functionalities (Refer Paragraph 3.2 of this report) and whether the competent authority approvals for descoping/non-development of such functionalities was obtained. Further, correctness of the reports issued through 21 Advisories could not be checked as department did not provide the testing environment (UAT).

1.6.6 Payment Module

Audit could not verify whether the raw data of paid challans was transmitted by the GSTN on a real time basis as specified in the SRS due to non-facilitation of a walkthrough of the API. MIS Reports could not be checked due to non-facilitation of Testing environment.

1.6.7 Data Migration Module

Continuity of business for the products not subsumed under GST could not be checked in CBIC ACES - GST application due to non-facilitation of testing environment.

1.6.8 Refund Module

Audit could not check the process of issuance of Payment advice and various MIS reports as the department did not provide testing in the UAT environment for these aspects. Process of re-crediting of Input Tax Credits (ITC) to the ledger and R1 and R2 Reports which require integration with the other stakeholders (Bank, PFMS etc.) could also be not verified.

1.6.9 Adjudication Module

Six functionalities were under UAT when audit was underway, and these functionalities were later launched. Out of the six functionalities, Audit could verify two functionalities in UAT environment - 'Issue of OIO' in which we noticed that the approval function was not working in 'Front-end' and 'Issue of SCN for Anti-evasion' in which we noticed that the record submitted in workflow in frontend was missing. Two functionalities

- PH Recording and SCN for refund could not be tested due to non-replication of the functionality in test environment at the GSTN end. The remaining two functionalities - DRC 08 and Call Book could not be tested due to non-working of the credentials given to Audit.

Audit acknowledges the co-operation extended by CBIC and its officials during the conduct of this audit.

